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10 The Industrial Organisation of Economic Policy Preparation in The Netherlands

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Abstract

In the institutional setup of (economic) policy preparation in the Netherlands there is ample interaction between scientific insights and policy proposals. This Dutch *polder model* lays much emphasis on the social dialogue to come to an agreement on, and have public support for policy proposals. It was primarily the idea of Jan Tinbergen—winner of the first Nobel prize in economics—to have a clear separation in policy preparation between (i) rely on independent and *undisputed data* collection by an autonomous Central Bureau of Statistics (CBS); (ii) trying to reach *consensus* on the working of the economy, as formalised in econometric models; and (ii) come to a *compromise* on policy goals between the various minority parties of the government. The aim of this separation of responsibilities is to guarantee, as much as possible, the scientific quality of policy preparation and at the same time to gain public support for policy measures so that implementation costs are kept low. This chapter discusses the working of this institutional setup, its historical background and the mechanisms of quality control and reputation which are essential for the interaction between scientific knowledge and policy preparation to remain fruitful.

1 Introduction

The ultimate aim of (economic) policy is to enhance social welfare. In an ideal world with perfect competition, no externalities and transaction costs, and with a perfect distribution of property rights, the optimal path of social welfare is

reached automatically when all individuals maximise their own welfare. There is no need for coordination by the government since the market mechanism will do the job. However, the real world is not ideal. Various externalities, the provision of public goods and problems of distribution require government intervention. The discipline of public economics provides the theoretical foundation and practical solutions as to how to deal with problems of market failure and redistribution of income and wealth. Policy prescriptions on the most efficient ways for governments to intervene and solve the coordination problem at the macro level are widely discussed in the literature. Moreover, the problems of government failure, and of politicians and civil servants seeking to serve their own interests instead of the public interest of enhancing social welfare, are also subject of much academic debate.

However, the (economic) literature has paid far less attention to the way the process of policy preparation is organised. In democratic societies, the final step for policy measures to be implemented is that they are legitimised according to the existent democratic rules. However, before policy measures obtain parliamentary approval, a long and often winding road has to be followed to move from the first ideas about the policy measures to their final formulation. To some extent, this organisation of the process of policy preparation is institutionalised in various procedures and implicit or explicit rules. There is an analogy here with the organisation of production processes and coordination procedures in industry, which is described by the economic discipline of industrial organisation. Therefore, when considering the institutional setup of the design and shaping of policy measures, we may speak of *the industrial organisation of policy preparation*. Apart from getting parliamentary approval for policy measures, it is

essential that these measures obtain public support. Although parliamentary consent and public support are required in all democratic societies, there appear to be remarkable differences in the institutional setup of the policy preparation in these countries. Obviously there is no one best ›model‹ to arrive at policy measures which enhance welfare.

This chapter considers the organisation of economic policy preparation in the Netherlands. Here the model is often referred to as the *polder model* because the social dialogue plays a prominent role in obtaining public support for the policy measures. A background to this way of organising public consent may be that in the Dutch polders all inhabitants had to agree about the water management and division of costs. That is because they were all involved in the implementation of the measures.

The focus of this chapter is on the role of scientific knowledge and of quality control in the process of policy preparation. Formally there is a one-way direction in the use of scientific knowledge by policy makers, but in practice much interaction takes place (see, e.g., Den Butter and Morgan 2000). In the Netherlands, part of this interaction is formalised in the institutional setup of policy preparation, which may contribute to the quality of the policy measures, but, as we will see, may also lead to a deadlock of ideas about beneficial policies. In such cases there should be enough room for outsiders to start a dispute on these leading opinions of academics and policy makers. Thus, the main question for the industrial organisation of economic policy preparation is to find a good balance between, on the one hand, fixed procedures which guarantee a fruitful exchange of ideas between scientists, policy makers and representatives of interest groups,

and, on the other hand, a great degree of flexibility in order to avoid deadlocks and the premature exclusion of opinions coming from outside the mainstream.

The contents of the remainder of the chapter are as follows. The next section gives an overview of the history of economic policy preparation in the Netherlands with special attention to the important role of data collection at the level of the state. Section 3 discusses the present institutional setup of policy preparation in the Dutch polder model, which has been greatly inspired by the practical elaboration of Tinbergen's theory on economic policy. The working of the interaction between empirical analysis and policy making is illustrated in Section 4 by the unique procedure in the Netherlands in which the CPB Netherlands Bureau for Policy Analysis estimates the effects of the election programmes of the major political parties (see Graafland and Ros 2003). Section 5 assesses the standards and mechanisms of quality control in this institutional setup of policy preparation in the Netherlands. It considers criteria for quality and provides examples of the debate and controversy with respect to policy measures. In order to illustrate how the industrial organisation of policy preparation can differ between countries, the organisation in France is compared with that in the Netherlands in Section 6. Section 7 is the conclusion.

2 Early History of Economic Policy Preparation in the Netherlands

Today empirical analysis and measurement play an essential role in the debate on policy measures in the Netherlands. It is especially this part of economic science which dominates the policy discussions. However, in the 19th century Dutch science had not yet developed a strong academic orientation towards actual

measurement and experience. This had to do with the Protestant background of the Dutch government where measurement and divine authority had a complicated relationship. Thus, natural philosophy and empiricism had to become acceptable within the framework of essentially religious means and goals. First and foremost, measurement was intended to develop knowledge about the greatness of God. This orientation did not provide a very fertile ground for the development of an experimental, empirical and quantitative approach. This disinterest in actual measurement disappeared only slowly and partially between 1750 and 1850 (see Klep and Stamhuis 2002; Den Butter 2004).

It was mainly through the private initiatives of individual scientists and practitioners, and not so much of the government, that this change in attitude was brought about.

Kluit and Vissering

An early protagonist of actual measurement in the Netherlands was Adriaan Kluit (1735-1807). He was the first Dutch professor to teach statistics under that name. One of the reasons that Kluit began to deliver lectures in statistics was his winning a prize contest by the *de Hollandsche Maatschappij der Wetenschappen* (Dutch Society of Sciences) at Haarlem, a learned society founded in 1752, which, in those days, tried to promote scientific research by posing practical questions. This learned society still exists and was granted the label *Royal* by the Queen when it celebrated its 250th anniversary in 2002. The question to which Kluit reacted was »What is the overall situation, both in general and especially with respect to the economy in our fatherland, and what are the reasons why our country lags so far behind as compared to our neighbours?« So it was in fact a quest for economic

data which inspired Kluit to get involved in statistics. Kluit did not distinguish between political economy and statistics, and in his specification the state was the centre of attention. So in his work we observe the beginning of the connection between the workings of political economy (in Dutch: *staatkunde* or *staathuishoudkunde*) and statistics. In this respect it is noteworthy that in Germany, political economy or economic political science was called *Statistica* or *Statistik.* This connection can also be traced back to the Italian word *Statista* or *Statesman,* which has given the discipline of statistics its name.

Although he was a lawyer by education, Simon Vissering (1818-1888) can be regarded as one of the main protagonists of statistical quantification of the state of the economy at the macrolevel in the Netherlands. He was one of the leaders of the *Statistical Movement,* a group of lawyers who dedicated themselves to the advancement of statistics, especially during the period in which the government did not take its statistical task very seriously. Although Vissering was more quantitatively oriented than his predecessors in political economy, his ideas about the kind of data needed for the description of the national economy are still rather naïve as compared to the data nowadays used to analyse the economy. In the course of the nineteenth century quantification came to play a more important role, but it was nevertheless Vissering's opinion that qualitative information was needed to make the statistical description of a state complete (see Klep and Stamhuis 2002).

Descriptive versus Mathematical Statistics

It is interesting to note that in the development of measuring the state of the economy (and society) in the nineteenth century, not much reference seems to be

made to the work of early *quantitative* economists such as Petty and King in the UK, or Keuchenius and Metelerkamp in the Netherlands, who are nowadays considered pioneers in national accounting (see Den Bakker 1993; Bos 2003). Moreover, there was still a large gap between descriptive and mathematical statistics. In the latter discipline the Belgian statistician Lambert Adolphe Jaques Quetelet (1796–1874) was one of the protoganists. In 1834 Quetelet was one of the founders of the London Statistical Society, nowadays the Royal Statistical Society. Morgan (1990) describes how, in the history of statistics, Quetelet's statistical characterisation of human behaviour proved to be of great importance. He noted that individuals behave in an unpredictable way, but that taken together these apparently disorganised individuals obey the law of errors in deviating from the ideal *average man*. Obviously this is one of the basic notions in econometric methodology, used in the evaluation of economic policy measures. So Quetelet can be seen as an initial bridge-builder between the mathematically oriented statistical approach and the descriptive and qualitative-quantitative approach.

However, Quetelet's ideas did not reach Vissering and his colleagues. It was only after the 1930's that, with Tinbergen as the great inspirer and teacher, a full integration of both lines of thought in statistics took place in the Netherlands. It is remarkable that, whereas these two lines in statistics had been separated for such a long time, from then on the Netherlands assumed the strong position in econometrics and applied economics that it holds until today, and that is at the heart of the institutional setup of the polder model.

Statistics as a Public Good

Vissering and his colleagues have played a major role in promoting the idea that the government should regard statistical data collection as a public good and therefore should assume responsibility for the collection of these data. However, in the second half of the nineteenth century the government was very reluctant to take up this responsibility. Therefore, in 1866 Vissering took the initiative in compiling and publishing general statistics for the Netherlands. However, this large project was never finished (see Stamhuis 1989, 2002). In 1884, when the Dutch government was still not willing to collect statistical data in the public domain, a Statistical Institute was established by these private persons. At last, in 1892, after inquiries in the Second Chamber of the Parliament by, amongst others, the socialist member of parliament, F.J. Domela Nieuwenhuis, the *Centrale Commissie voor de Statistiek* (Central Committee for Statistics) was established. Finally, in 1899 the Central Bureau of Statistics (CBS) was founded, which from then on has collected independent and undisputed data for public use in the Netherlands. The Central Committee for Statistics still exists and has a role as supervisory board for the Central Bureau of Statistics. Its responsibilities were even extended by decision of the Parliament in 2003. In fact, the lobby to have the government collect statistical data at the level of the state through the *Society of Statistics* which was founded in 1849, can be regarded mainly as an association of economists (see Mooij 1994). After 1892, when the lobby of the society for data collection by the government had finally been successful, the main focus of the society turned to economics. Therefore, in 1892, its name was changed to the Society for Political Economy and Statistics. Yet it was more than half a century later, namely in 1950, that the focus of the society became clearly reflected in its

name which now was called the Netherlands Economic Association. Finally, in 1987 the Queen honoured the society by granting it the label *Royal*. So since 1987 we have the Royal Netherlands Economic Association, which is probably the oldest association of political economists in the world.

Micro- versus Macrodata

National measurement of data and the way indicators from these measurements are used in policy practice relate to the debate in the field of statistics, whether to collect data at the micro- or macrolevel, and consequently to the problem of aggregating individual data when these data are used to analyse the state of the nation as a whole. It seems that these problems only began to be systematically dealt with in the construction of modern national data measurement by Stone and Meade as protagonists in the late 1930s. In this respect Van den Bogaard (1999: Ch. 5) gives an interesting description of the long discussions between Tinbergen and the CBS on transforming individual data from budget surveys to national data on consumer behavior which could be used in consumption functions of the Keynesian macro models of those days. These consumption functions describe how aggregate consumption is explained by various macroeconomic variables. Nowadays the construction and definition of data on aggregate consumption are well established and undisputed within the context of National Accounts. However, in the 1930s consumption was still something related to individual income, social class and social role in society. It was indeed only in the early 1950s that data collection and statistical methodology for analysing data at the macro level were really integrated. This is closely related to the development of National Accounting (see e.g Den Butter, 2007)

3 The Polder Model and the Tinbergen Legacy

The present institutional setup of policy preparation in the Netherlands can, in a way, be seen as an off-shoot of Tinbergen's theory of economic policy, where scientific insights on how instruments may effect policy goals are separated from political preferences on trade-off between these policy goals (see Tinbergen 1952, 1956).

These ideas were, of course, very much inspired by the political and societal landscape in the Netherlands in the period between the First and the Second World Wars (see also Van Zanden, 2002, for a broad historic perspective). In the years just after the Second World War, when Tinbergen designed his theory of economic policy and was active in the institutional setup of policy preparation in the Netherlands, the Dutch society was still very much *pillarized*. The four main pillars were the liberals, the Catholics, the Protestants and the socialists. Each of them were represented by one or more political parties with implicit preferences on policy goals in their own, so to say, social welfare function. As they all are minority parties, there has always been a need for the formation of a coalition government. The chairmen of the political parties or pillars did realise that it is impossible to meet all of their own party's policy goals in such a coalition government. Although the pillarized society has changed very much since then and there has been a steady *depillarization*, all parties are still minority parties, even more so then before, so that the need for a compromise agreement for the coalition government has remained.

As will be elaborated below, the analysis of the Dutch Central Planning Bureau has from its founding played an important role in the design of policy

preparation in the Netherlands. Nowadays the bureau calls itself CPB Netherlands Bureau for Economic Policy Analysis, because there is no true *planning* involved in the activities of the bureau. More specifically the analysis is an important input for the negotiations and social dialogue on policy issues in what has become known as the Dutch polder model.

In its first few years, there was a fierce internal discussion in the CPB about the way the bureau should give shape to its advice and perform its task in policy preparation (see Van den Bogaard 1998). On the one side was Van Cleeff, who had the view that the CPB should follow a normative approach, while on the other side Tinbergen supported the idea of disentangling the positive and normative elements of the analyses. Crucial in this controversy was in which way economic policy advice would be the most successful in the pillarised economy. Van Cleeff tried to develop an all-embracing normative theory which would integrate the ideas of the different pillars. As in industry, that would lead to a formal policy ›plan‹ which could be implemented by the government in a coordinated effort of all citizens, On the other hand, Tinbergen wanted to develop a method that would provide the most objective description of reality. The differences between the pillars would then be minimised to their different normative proportions. In other words, he wanted to make a clear distinction between the workings of the economy (model) and the policy goals (welfare functions), and then »try to agree on the first and compromise on the second issue«. Tinbergen won this battle. Since then, economic policy preparation in the Netherlands is organised in three autonomous parts: (i) data, (ii) model and (iii) norms. As discussed in the previous section, the data and statistics are collected by the Central Bureau of Statistics (CBS) in an independent and (hopefully) undisputed manner. The CPB tries to

reach, from a scientific perspective, *consensus* about the workings of the economy as described by its empirical the models. The balancing of different points of view is done by the government in dialogue with unions, employer organisations and other associations of organised interest. This method of splitting data, analysis and politics has up to now always been a prominent feature in creating agreement on, and support for policy measures in the Dutch society where all belong to a cultural minority or minority party. Yet, as political preferences of all of these parties are different, such agreement will always have the character of a *compromise*.

Many organisations and stakeholders are involved in this institutional setup of the social dialogue in the Netherlands. Below we discuss the influence and working of two institutions more thoroughly. First the role and position of the CPB is elaborated on how it tries to come to a consensus view on economic developments and the effects of policy measures. The second institution is the Social Economic Council (SER) that plays (together with the Foundation of Labour) the central role in negotiations between the various stakeholders in coming to compromise agreement on matters of economic and social policy (see for a more elaborate survey: Den Butter and Mosch 2003). This is the arena where interaction between scientific knowledge and the policy dispute takes place. Finally some other institutions are discussed that play an even broader role in policy making in the Netherlands.

CPB Netherlands Bureau for Economic Policy Analysis (CPB)

The Central Planning Bureau (CPB) started in 1945 but obtained a formal status by law only in 1947. In spite of the fact that the CPB is formally part of the Ministry of Economic Affairs, it fulfils its advisory task independently from

government interference. This status of independence is recognised by all parties and stakeholders in the policy making process, which provides the analyses of the CPB with high reputation and esteem. The two major periodic publications of the CPB are the Central Economic Plan (CEP) and the Macroeconomic Outlook (MEV). The Central Economic Plan is published each year in springtime and contains a survey and analysis of economic developments in the Netherlands and abroad. It contains economic forecasts for the current and for the following year. The MEV is published together with the government budget in September each year. The forecasts of the economy in the next year are formal in the sense that the government budget has to be based on these data. Moreover, the MEV also gives revised projections for the current year. In fact, nowadays the CPB has two major tasks. The first is the task of national auditor: This implies economic forecasting and assessment of the effects of policy measures for the government and for other groups involved in the policy making process, such as the social partners. The second task consists of the CPB conducting, in a more general sense, applied economic research (see Don 1996). Nowadays the following have gained in importance: extensive scenario analyses and cost benefit analyses are conducted with respect to various aspects of the Dutch economy. There is also a shift towards micro-economic research and evaluation studies. Typical for the institutional setup of Dutch policy-making are the numerous formal and informal contacts between the staff of the CPB and the economists in ministries, researchers in academia and the staff of the social partners. On the one hand, they provide relevant information to the CPB, but, on the other hand, they will, if needed, be critical on the work of the CPB.

Since Tinbergen (1936) built the first econometric policy model, it is understandable that model-based policy analysis has, from the beginning, constituted an important part of the work of the CPB. The CPB's ›model‹ early on acquired high status in academic circles and has come to be regarded in Dutch society as an objective piece of economic science (Den Butter and Morgan 1998). The analyses of the CPB are widely used as input for social economic policy discussions, e.g., in the Social Economic Council (see below). The next section elaborates a typical example of the role of the CPB in using their model-based analysis for policy purposes, namely the calculation of the effects of the policy proposals in the election programmes of the political parties on economic growth, employment, income distribution and so on.

Seemingly, it is almost a realisation of Tinbergen's dream to separate the knowledge on the working of the economy, which is contained in the models used by the CPB, and the normative preferences on trade-offs between policy goals, which will differ for each political party.

Foundation of Labour and Social Economic Council

It is typical for the institutional setup of the social dialogue in the Netherlands (i.e., the polder model) that the social partners are at the heart of the consultation structure for economic and social policy. The *Foundation of Labour* (STAR) is the formal platform where employees and employers meet each other on a structural basis. It was founded in 1945 as a private organisation and acts as a bilateral discussion forum in the field of labour standards for unions and employer associations. The seats are equally divided between the two, and each side

delivers one of the two chairmen. The results of the discussions are stated in so-called *central agreements*. This occurs about once in two or three years.

Yet, the major forum for political discussions is the Social Economic Council (SER). The SER is the main policy advisory board for the government regarding social economic issues. Its constellation is tripartite. Labour unions, employer associations and *independent members* each possess one third of the seats. The independent members consist of professors in economics or law, politicians, the president of the Dutch Central Bank and the director of the CPB. They are appointed by the crown. It is through these independent members that the policy discussions within the SER benefit from the insights of scientific research. In this way, also the members from the trade unions and from the employers organisations are bound to be professionals who are knowledgeable of the scientific framework of the discussions, and speak the same language as the independent members. The analyses of the CPB and also of the Dutch Central Bank carry a great deal of weight in these discussions. Policy advice by the SER is prepared in committees, in which representatives of the three categories discuss and amend texts drafted by the SER. Representatives of various ministries attend these committee meetings, but formally they are observers. They do not take part in discussions unless they are asked to provide relevant information. So, unlike in other countries, where the third party in tripartite council discussions is the government, in the Netherlands independent experts as third party in the discussion see to it that the social partners do not come to agreements which are harmful to society as a whole. This would be the case when the costs of the policy measures agreed upon are shifted to the society as a whole. A major reason that the government is not an official partner in the discussions in the SER, is that the

SER gives formal advice to the government. It is clear that the government should not have a say in the preparation of such advice.

Obviously, it is important for the impact of the SER recommendations that they are supported unanimously. It is quite uncustomary that the government would disregard a SER unanimous policy recommendation. The independent members can be helpful in reaching a consensus recommendation in informal discussions. Obviously, the SER chairman has, as independent member, a crucial position in this institutionalised social dialogue.. It is true that the independent members are selected and appointed in such a way that their political backgrounds more or less reflect the political landscape in the Netherlands. This may somewhat obscure the division between statements based on scientific insights and political preferences in the discussion. Recently the political background of the independent members of the SER has become more important and former politicians with little experience in academic research have been appointed as independent members. So there is a risk that scientific insights will play a less substantial role in the discussions, and that the discussions will focus on bridging political differences. On the other hand, at least in the past, on some occasions the political background of the independent members has been quite instrumental in reaching an agreement. It happened that an academic member associated with the socialist, left wing party would interfere in the discussions and tell the trade unions that their demands were unfair, or that an academic member associated with the liberal, right wing party would tell the members of the employers organisations that their demands were too high.

Other Institutes

As in most other countries the Central Bank—The Netherlands Bank (DNB)—plays a major role in economic policy making. Nowadays, the major task of the DNB is to enhance and guarantee the stability of the payment system, whereas its former main task, namely to conduct monetary policy in order to combat inflation, has been delegated to the European Central Bank. Yet the role of DNB in the policy discussions in the Netherlands is not restricted to banking supervision or (advice on) monetary policy. Officers of the Bank take part in the prominent forums for policy discussions in the Dutch polder model. As mentioned before, the president of the DNB is a member of the Social Economic Council and DNB officers participate in various meetings where SER advice is formulated. Moreover there is ample informal coordination with fiscal policy: The president of the DNB has regular lunches with the Minister of Finance and the Treasurer General (a high ranking civil servant in the Ministry). DNB officers are members of various *ad hoc* and regular committees in The Hague, which are an important part of the policy making process.

Sometimes, when no consensus can be reached about difficult policy problems within the formal institutional framework of the polder model, special committees are established for policy advice on these problems. An example was the new design for the social security arrangement for disabled workers. At the end of the twentieth century there was a long period of disagreement about how to solve this problem. Finally, in 2001 the government established a committee which consisted of members representing various political backgrounds and which was chaired by Piet Hein Donner (a prominent member of the Christian Democratic Party, former chairman of the Scientific Council for Government

Policy, Minister of Legal Affairs in the Balkenende II cabinet, and Minister of Social Affairs and Employment in the Balkenende IV cabinet). This committee reached an agreement about a new arrangement for disabled workers which was thereafter— with some minor changes —approved by the Social Economic Council. However, the advice was not unanimous because three independent members did not consider the new arrangement as an improvement.

Apart from the CPB, at the end of the twentieth century three other so called *planning bureaus* were established in the Netherlands. In 1972 the Social and Cultural Planning Bureau (SCP) was founded. As in the CPB, the task of this bureau is not so much formal planning but rather monitoring and indicating future developments with respect to the social and cultural level of welfare of the Netherlands' population. In the late 1990's an Environmental and Nature Planning Bureau was established within the existing large Institutes for Public Health and the Environment (RIVM). In 2006 this Environmental Planning Bureau became fully independent from the RIVM.(see also Petersen et al, this volume)

A Spatial Planning Bureau was founded in January 2002. However, in May 2008 this Spatial Planning Bureau merged with the Environmental and Nature Planning Bureau to form a new "planning bureau" for the strategic analysis and policy research in the field of environment, nature and spatial planning. In English the bureau calls itself the Netherlands Environmental Assessment Agency (in Dutch: Planbureau voor de Leefomgeving, PBL) The division of tasks between these three planning bureaus, CPB, SCP and PBL, is described in a protocol.

All directors of the three planning bureaus and the general director of the CBS are external members of the Scientific Council for Government Policy (WRR) which was founded in 1972 to provide advice to the government about

long term policies. The WRR is a multi-disciplinary council with about eight members and a small staff of about twenty persons. Most members have an academic background and have, in one way or another, already been involved in the policy consultation process in the Netherlands. The council is part of the Prime Minister's office, but it is completely independent in its long term policy advice. The major part of the subjects of advice on which the WRR writes its reports to the government is initiated by the members of the council themselves. The advice of the WRR is required to be unanimous, although the possibility exists for individual members to write a minority recommendation. One of the functions of the WRR has grown to be ringing the alarm bell when the closeness of the consultation structure in the Netherlands leads to inertia and even to deadlocks in the process of policy making, so that radical changes were not able to be initiated. Some reports of the WRR have been very influential in this respect.

There are many more institutions and committees which act, in a more broader sense, in the interface between science and policy in the setup of the polder model. An example is the RMNO (see De Wit, this volume).

In 2005 a Council of Economic Advisors, consisting of five leading Dutch economists, has been established in order to strengthen the role of the Parliament in discussions on economic policy. The council's role was to function for the Parliament as a counteracting power and to produce second opinions regarding the economic outlooks and the advice of the CPB, of the OECD and of the IMF. However, as members of the Parliament were not keen in using the critical reports of the council, it has been dissolved in 2008. Apparently such advisory body, where experts suggest, from a science based perspective, policy changes directly

to the members of Parliament, does not fit into Tinbergen's set-up of the division of responsibilities in the policy making process.

4 An Example: Economic Effects of Election Programmes

The fact that the major political parties ask the CPB to calculate the economic effects of their election programmes is conform with the institutional setup of policy making in the Netherlands where knowledge on the working of the economy is, according to the theory of economic policy, separated from the normative preferences on trade-offs between policy goals. These policy preferences will differ for each political party (or pillar). Therefore it is not remarkable that the CPB conducts these assessments; it may be even more remarkable that it only started to do so in 1986. In that year the three major parties, the Christian Democrats, the Liberals and the Socialists, asked the CPB to look at the effects of their economic policy proposals. In 1989 the Liberal Socialists of D66 also participated in the exercise and in 1994 the Green-Left party, after some fierce internal discussions, became the fifth party to participate. In 1998 the assessment also included the policy programmes of these five political parties whereas in 2002 the exercise was extended to eight political parties. It should again be emphasised that the CPB conducts the assessment at the *request* of the political parties and does not, apart from the timing of the exercise, take any initiative on its own. So it is the free choice of each of the political parties whether or not they want their program be examined by the CPB. In this way they aim to obtain the stamp of approval of the CPB. Although there may be some herding involved in the decision of the political parties to participate (it may be regarded as a negative signal when parties do not participate) and although the

smaller political parties complain that the exercise is relatively costly and time consuming for them, the impression is that the major political parties consider the assessment as useful as it brings discipline and budgetary consistency when it comes to drafting the programme.

Thus it actively contributes to quality improvement in the political process. Moreover, in the larger political parties, with many hobby horses and shades of opinions between the active members, the assessment makes life easier for the person who has the responsibility for budgetary consistency of the program. So, in the exercise in 2002, the financial spokesman of the Socialist party, Ferd Crone, discussed his input into the assessment of the CPB with two persons only, namely the political leader (Melkert) and the chairman of the party (Koole).

Of course, there is a major dilemma that the CPB faces in the assessment. On the one Hand, there is much value in obtaining quantitative information on effects of various policy proposals in the election programmes. However, a completely objective and politically unbiased judgement on these policy proposals can never be given. Although a good quantitative economist will conduct his or her analysis as objectively as possible, a complete separation, as especially political scientists would emphasise, can never be made between analysis and normative preferences. It must be said that the CPB has put much effort in the design of the assessment procedure to guarantee the unbiasedness of the outcomes, but the selection of the models and the input of much tacit human knowledge into the assessment (see Don 2003 for a description of the procedure) will not completely prevent value judgements from creeping into the procedure. Therefore, apart from the value-creating elements in the assessment, some

objections have also been raised against this procedure (see, e.g., The Review Committee of the CPB 1997).

In the following a number of pros and a number of cons of the assessment are discussed.

Pros

There are a number of reasons why the assessment exercise can be regarded as a contribution to the qualified use of scientific knowledge in policy preparation. Some of these reasons have already been alluded to above. The first source of value of the exercise is that all policy proposals in the election programmes are calculated using a consistent model-based framework. It implies that the calculated effects on the policy goals are comparable for all political parties. In this way the assessment gives the impression of the implicit social welfare function of the various political parties. Thus the voters may decide which of the parties has a welfare function that agrees most with their own preferences.

In fact, the assessment procedure consists of three steps. The first step is that the political parties are confronted with a basis scenario which is somewhat cautious about future developments and which is ›policy poor.‹ It means that trends in government expenditures in the main fields of policy concern (health care and insurance, education, social security) have been extrapolated on the assumption of no additional policy efforts. So the policy proposals of the political parties are defined as changes with respect to trend growths implicit in this basic scenario. It implies that when the political parties propose a cut in spending in one policy field in order to be able to intensify expenditure in another policy field, it does not mean that there is an absolute decrease in spending in that first policy

field, but only a relative decrease as compared to the basic scenario. Of course this makes a careful wording of the assessment in the public debate necessary. A second step in the assessment procedure is budgetary accounting. A definition equation describes in what way the political parties are planning to use the so-called *budgetary space* according to the basic projection plus cuts in spending which they propose. This can be used in three ways: namely, for additional spending, for reduction of the tax and premium burden and for reduction of the government debt. Obviously this accounting rule is not based on model assumptions and on economic behaviour, and contains no value judgement in that respect. It is noticeable that the rules and procedures for this budgetary accounting, including the norm for the budget surplus, are extensively discussed in policy advice of the Social Economic Council (SER) and in the so-called Studiegroep Begrotingsruimte which is a committee of high-ranking civil servants of Ministries and of experts of the Central Bank on budgetary policy.

This is another example of the interaction between scientists and various stakeholders in the policy discussions in the polder model.

The working of the models and the assumptions on the economic behaviour implicit in these models do play a major role in the third step of the assessment procedure. Here the effects of the policy proposals on the labour market, on product markets and on income distribution are calculated. There is, moreover, some feedback to the second step of the procedure as the model-based exercise may yield negative or positive second order effects for the government budget. However, in the most recent assessments of the CPB, the second order effects are relatively small as compared to second order effects found in previous assessment exercises (on which there has been much debate).

Therefore, a second major advantage of the assessment procedure is that the political parties are forced to think about this budgetary consistency. It means that the political parties have to be very strict on their proposals and cannot promise mountains of gold at no cost. More generally, this discipline in making consistent policy plans can be regarded as a major value added in the use of models for economic policy analysis. It does not only bring discipline into the policy plans, there is also ample interaction between the policy makers and the modelling experts on what kind of policy instruments are most effective in achieving the warranted policy goals. This interaction also occurs in the discussions of the CPB experts and makers of the election programmes of the political parties. Yet, the CPB's procedure is strict in the sense that the final outcome cannot be influenced by the political parties any longer. Moreover, during the procedure there is no information and discussion between the political parties on how they proceed in the assessment procedure and on the CPB's implementation of their policy proposals. A proof of the fact that the assessment procedure brings consistency is that during the elections of 2003, when no assessment could be made due to a short election period, there were many complaints in the media about financial inconsistencies in the political programmes.

A third source of value of the assessment procedure is that the policy discussion takes place in line with the CPB's belief in the working of an economy which is based on sound economic theory, on empirical research and on a deep knowledge of economic institutions in the Netherlands. The policy analysis of the CPB provides a kind of common language as framework for the policy discussions. This common language lowers the transaction costs in, e.g., the negotiations between the social partners. It is even remarkable how much, to give

an example, the advice of the SER on medium term policy for the period 2002–2006 has heavily relied on studies conducted by the CPB (see SER 2002). Thus, the economic framework used in the assessment of the programmes of the political parties is familiar to all professional participants in the policy discussions in the Netherlands. They all use the terminology of the CPB, and accept and interpret the outcomes of the analyses of the CPB accordingly. Moreover, the CPB has, in these circles, a high reputation for the quality of its analysis. It would take a long time for other institutes to build up a similar reputation. Because of the large investment costs in specific knowledge on this type of calculations, proliferation of such policy assessments of the election programmes would bring about huge costs given the size of the Dutch economy. In this respect the Dutch economy cannot be compared with the German economy, which has six major institutes for economic policy analysis.

A final and most prominent source of value of the assessment is that the calculations contribute considerably to lowering the negotiation costs when after the elections a coalition government has to be formed. Due to the assessment, the negotiators in the formation process are aware of the effects which the proposals of the various election programmes have, according to the calculations of the CPB, on the policy goals. This has proven to be useful information in order to come to a compromise and reach a government agreement which consists of a combination of the most effective policy proposals from the programmes. So, in an informal way, the assessment contributes to establishing an overall social welfare function that combines the individual preferences of the political parties which constitute the government.

Cons

Most arguments in favour of the assessment of the programmes of the previous section also contain a seed from which doubt may grow on the value of this task of the CPB. It is already mentioned that it is impossible to calculate the effects of policy proposals in a completely objective way. There will always be normative aspects and some subjective interpretations in the implementation of the policy proposals in the modelling . On previous occasions, as part of the learning process, there have been ample discussions between the makers of the programmes and the staff of the CPB on this implementation. In the recent exercise the length of time for these discussions has been restricted by keeping a tight time schedule. As yet, all three steps in the calculation procedure discussed in the previous section, contain elements of judgment by the CPB officers. In that sense the assessment is not fully codified. The basic scenario and the resulting calculation of the budgetary space are based on sound projections of structural growth, but, since, in the calculations discussed here, a cautious trend projection underlies the scenario, the probability of higher structural growth is greater than the probability of lower structural growth. This makes the basic scenario somewhat difficult to interpret.

There is no room for differences in interpretation in the second step: here the budget constraint says that by definition the budgetary allowance plus cuts in spending should be equal to additional government expenditure plus tax reductions plus additional reduction of the government debt. However, the third step, where a mix of the models of the CPB is used for calculating the effects and propagation dynamics of the various policy proposals, is bound to many underlying assumptions. It may occur that the makers of the policy programmes

disagree with the major mechanisms of the models used for the calculations. A first and not very complicated disagreement would be about calibrated or estimated values of the parameters of the models. Graafland (2003) shows that such differences in parameter values may already give rise to huge differences in the calculated effects of the policy proposals. A second and more fundamental disagreement would be about the dynamics of the model, namely the lag structure and the propagation speed of the policy proposals. This has been a cause of disagreement between the Christian Democratic Party and the CPB in the previous assessment of the election programmes in 1998 (see Verbon 1998; and Don 1998).

The most serious objection of the makers of the policy programmes would be when they disagree with the working and specification of the model and its theoretical underpinnings. In that case, their request would be for the use of different model specifications. All in all the political parties may ask for a sensitivity analysis with respect to these kind of specification changes. However, that would be very time consuming and would also involve the danger that the political parties go shopping for more positive results.

Although ideally the assessment is supposed to reveal the social welfare function of each political party, in reality the assessment does not provide a clear cut insight into the trade-offs between policy goals and into the preferences of the political parties. The outcomes are rather complicated in their mix of policy goals, input of various instruments and propagation dynamics. Thus some parties will have favourable effects in the short run, whereas their long-term economic performance may be lower than that of other parties. This rich diversity of outcomes makes it difficult to select the political party with preferences that

comes closest to one's own individual welfare concept. That is why the assessment, apart from its technical character, is not very helpful to laymen voters trying to decide about their favourite party. The CPB tries hard to present the outcomes in a clear and understandable way, and all political parties will stress that their outcomes are the best given their own criteria of judgements for them. On the other hand, the policy debate may be very selective with respect to the outcomes.

Politicians can be, in their election campaigns, rather eager to exaggerate specific policy consequences, mainly with respect to the effects on employment, and give them much more weight than the uncertainties which the calculations allow. For instance in 1998, a leader of the Liberals argued that the Christian Democrats were not ready for government because the calculations of the CPB showed that their programme did not enhance employment. In the assessment of 2002 there were some misunderstandings in the press about the effect on purchasing power of lower and higher incomes, due to the CPB's definition of lower and higher incomes in which the class of higher incomes also comprised (lower) middle incomes.

Another problem with the assessments, unavoidable though, is that the calculations of the CPB are highly technical so that they are very difficult for laymen and relative outsiders to judge. It is really an insider's exercise, the scope of which can only be fully understood by experts. Only a few professionals are fluent in the language of the CPB and really know how to interpret the working of the models. Moreover, it is questionably whether the results can be reproduced completely by outsiders (see also Graafland 2003). In fact, the calculations are made by different models which generally do not yield the same impulse response

effects. So a great deal of not fully documented judgement is included in the assessment in combining the effects according to the various models.

A further source of concern regarding the assessments is that a number of aspects, which political parties (and the public!) may consider as important, cannot be taken into account in the calculations. These may be either positive effects, such as policy measures to enhance the quality of education, or to make the health system more efficient without additional expenditures, or negative effects of high transaction and transition costs that policy measures may bring about. More in general, the assessment is confined to a quantification of the economic effects of the policy proposals. Although the assessment of 2002 extended the analysis to a quality assessment with respect to the environment, the public health sector and disability, there danger was that other important issues in the election campaign would remain underexposed such as values, norms and the preservation of social capital, safety and crime prevention and government failure. This problem could be solved if the other planning bureaus would also make an assessment, albeit qualitatively, in their field of competence. As a matter of fact, the Environmental Planning Bureau publishes its assessment in line with the assessment of the CPB.

A final and most interesting problem, or side effect of the assessment, is that the makers of the party programmes have become familiar with the properties of the models of the CPB and will in the policy proposals see to it that they are effective in eterms of the CPB models. In fact, a bad performance in the CPB calculations, especially with respect to employment, has, on previous occasions, proved to lead to a loss of votes in the elections. The result is that this procedure generates those policy proposals of the political parties which are most beneficial

according to the models of the CPB. This has led to a remarkable convergence of policy plans, especially between the established parties, which would help qualify them for participation in the government. E.g., in the assessment of 2002, the policy proposals of the Green Left party (*Groen-Links*)were so much in line with the proposals of the other parties that they were not excluded by other parties from taking part in the government beforehand. This convergence of plans may have contributed to the lack of interest of the Dutch population for general elections—apart from *depillarisation* which may be another course.

Moreover, there is a risk that the way the CPB models describe economic reality is not correct, so that all political parties are betting on the wrong horse in the design of their programmes. This would imply an extraordinary example of a political bind.

It is true that, as Don (2003) argues, it enhances welfare when the designers of the political programmes exploit the properties of the CPB models when these models provide an adequate description of reality. However, the dominant role of the models of the CPB and their implicit conceptual framework with which all economists in the country have been educated, may lead to path dependence in the analysis. A kind of discourse coalition will emanate, which may exclude new and relevant conceptual ideas (see Van den Bogaard 2002). That is why, in the institutional framework of the Dutch polder model, with its frequent interactions between professionals in the policy-making process who all speak the same scientific language, some counteracting power of outsiders should be organised and facilitated in order to prevent such conceptual binds.

5 Quality Control of Scientific Advice

The description above of the institutional setup of the process of policy preparation in the Netherlands already implicitly deals with some questions regarding quality control and certainty in scientific advice to policy. This section contains a more explicit discussion of these questions. There are two basic questions. The first is how to guarantee that the scientific advice itself is of good quality, makes use of state-of-the-art scientific knowledge and is policy-relevant. This is a question of quality control and reputation formation within the scientific community itself. The second question regards the propagation of the scientific knowledge and advice to the policy makers.

Here it is important how the propagation of scientific knowledge and the interaction between scientists and policy makers is organised.

What is Quality?

From an operational point of view the quality of scientific advice for policy making is very difficult to assess. Of course, from a highly theoretical perspective, that scientific advice to policy has the highest quality which contributes most to social welfare.

However, even with the benefit of hindsight, the contribution of scientific advice to welfare cannot be measured. Firstly, that is because social welfare itself is difficult to measure. Social welfare functions are a theoretical construct, which are difficult to quantify. At most some information on (political) trade-offs between various policy goals (e.g., income per head, equality, environmental quality, employment) can be obtained by surveys, or, ex post, by revealed preferences (see e.g. Merkies, 1973, Van Eijk and Sandee, 1959). Moreover, in

modern economic thinking the concept of a social welfare function representing political preferences no longer has its former prominent role in political economy. Instead, the actual implementation of policy plans is seen as the outcome of a process of negotiation between various stakeholders with different interests. In that theoretical model the outcome depends on the negotiation power of the stakeholders.

A second reason why the quality of the advice is difficult to assess, is that at the macro-level there is no control experiment. It is only in a model-based calculation that the difference between the development without and with a policy measure can be computed. This is what an *impulse-response analysis* does. Such analysis (*spoorboekjes*—railroad time tables—as Tinbergen called it) is used by the CPB to estimate the effects of policy measures before they are implemented, for instance in the calculation of the effects of the election programmes. A suggestion in this respect for further quality control is to perform a similar calculation after the policy plan has been put into effect.

Which Criteria for Quality?

Because of these difficulties in assessing the quality of scientific policy advice, one should be pragmatic in setting criteria for the judgement of that quality. Criteria can be related to the two questions posed above. A first set of criteria should describe the quality of the advice insofar as it is based on state-of-the-art scientific knowledge and empirical observations. Here the usual criteria used in the scientific community hold: the analysis should be peer reviewed, reproducible and based on public sources open to the scientific debate (see e.g. Jasanoff, this volume) These criteria are discussed and used widely in science policy, so that

they do not need further attention in this chapter. In fact, these criteria relate to the consensus part of the setup of the polder model. In order to comply with these criteria the CPB organizes discussions and collaboration with researchers at universities, invites international experts and supports publications of staff members in peer reviewed journals.

The second set of criteria has to do with the propagation of the scientific knowledge to the policymakers, and with the way interaction between scientific knowledge and policymakers (and/or stakeholders) is organised in order to gain public support for the policy measures. Here the criteria are associated with the compromise part of the polder model. These criteria should enable a judgement on (i) whether the scientific knowledge is implemented in a correct way in the policy plans, (ii) whether feedback from politicians and stakeholders have been sufficiently incorporated in the policy plans, (iii) whether the independence of the scientific advice has been preserved when incorporating this feedback and no political pressure has been exerted on the scientific advisors to adapt the results to predicted outcomes, (iv) whether an open debate on policy measures and their measured effects has been organised so that stalemates are avoided, (v) whether public support for the policy plans has been obtained in an open and honest way (no cheating or window dressing), (vi) whether the calculated effects of the policy plans sufficiently fulfil the preferences (or best interests) of stakeholders, and (vii) whether, in a follow-up analysis, the implementation costs of the policy measures turn out be reasonably low.

Whereas the first set of criteria is directly related to the way the production of scientific knowledge is organised, a good performance on the second set of criteria depends on the institutional setup of the process of policy preparation. The

quality control in scientific advice to policy depends a great deal on the way the propagation of scientific knowledge to policy practice is institutionalised in formal and informal procedures. That is why this chapter puts so much emphasis on the history and working of the polder model in the Netherlands.

Institutions and Formalised Procedures

As mentioned before, in the institutionalised procedures of the polder model to obtain public support for policy measures, discussions and compromise advice of the SER play a major role. Therefore, most of the above criteria of judgement on the quality of the scientific advice are applicable to the SER. Here it is the task of the independent members to see to it that advice is based on, and is consistent with up-to-date scientific knowledge. These persons thus play an important role in the use of scientific knowledge for policy practice. It is through these independent members that the policy discussions within the SER benefit from the insights of scientific research.

The SER has an important function in promoting trust between the various policy makers by acting as a platform of discussion for social partners, government, central bank, CPB and scientists. The positive role of the SER has, however, not always been recognized by the government. The legal provision that the government was obliged to ask the SER for advice on all proposals for social-economic legislation was abolished in 1995. The feeling had arisen at the government level that this procedure took too much time and caused too much *stickiness* in the policy preparation procedures.

However, instead of weakening the position of the SER in the process of policy preparation, this measure seems to have strengthened it. The measure

worked, probably unintended by the government, as a trigger mechanism for the members of the SER to reach consensus in its policy recommendations. Recommendations that are signed unanimously by the three parties involved give a strong signal to the government of societal consensus on specific policy measures, and are therefore much more powerful than recommendations that reflect divided opinions. As mentioned above, the Dutch culture of consensus puts strong pressure on the government to follow unanimous recommendations. The government is, however, not bound to act in the way the SER recommends, although it is obliged to give a formal statement of reaction to every published recommendation.

In this institutional setup the SER thus fulfils two main purposes. First, it works as a device for the government to become informed about the points of view of trade unions and employer organizations about social-economic questions. Especially the unanimous recommendations give the government clues about what policy measures will be supported by society. Second, the SER works as a platform that brings together trade unions and employer organizations to talk with each other about social-economic matters. The presence of economic and legal scientists makes sure that the discussions are based on solid arguments. In this way they learn about each other's motives and objectives for and against certain policy measures. This prevents misunderstandings and makes it possible to form a basis for developing mutual trust (see Den Butter and Mosch 2003; Mosch 2004). It also promotes that policy plans are based on consistent and good quality economic knowledge.

One of the major aspects in the negotiations in the SER, which is related to the idea of trust, is that the main negotiators meet each other regularly both in

formal and in informal meetings. It is the repeated frequent interactions of the negotiators in meetings that contributes to trust formation which plays an important role here. An example of this attitude can be found in an interview by Klamer (1990) on the occasion of the 40th anniversary of the SER. Klamer posed the following question to Jan Stekelenburg, at that time the chairman of FNV, the largest trade union:

»My impression is that you and Van Lede—chairman of the largest employers' organisation—are very much on speaking terms and that you are more friendly to each other than the outside world believes you are.«

Stekelenburg's answer is:

»No, no, that is not true! It is certainly not true that we're constantly fighting with each other, but at the moment of conflict it is clear and apparent and we don't ease the problem when we are together.«

Then Klamer asked:

»Did it happen that you were really angry with Van Lede?«

Stekelenburg replied:

»Yes, when there is really a large conflict I may be angry. However, it will happen in a way which does not harm our future relationship, because we are committed to each other. We need each other in these negotiations on labour relations, so that we should be aware that after a big quarrel we will always be forced to come back to business in a next situation. So the real hard and definite battle will never be fought.«

These examples illustrate that the Dutch institutional framework for social-economic policy preparation has several characteristics that favour the formation of trust and cooperation.

To begin with, there is, as explained before, a cultural trait prevalent in the Netherlands that is favourable to cooperation and consensus. In other words, there seems to be a sort of *basic trust* upon which actual mutual trust can be developed. This can also be related to the idea of the path-dependency of trust (see, for example, Putnam 1993). Given the fact that most people in a society feel inclined to act in trustworthy ways, it is beneficial for all people to keep to this way of transacting, because it will reap extra benefits for the involved parties when it comes to solving coordination types of activities.

The Dutch institutional framework seems to fit almost completely with micro-findings on how to build trust-enhancing networks. The group of players in the Netherlands is relatively small. As we have seen from the interview by Klamer (1990), there is much repeated contact between the players. A substantial part of it is face-to-face and informal (see, e.g., Ostrom and Walker (1997) for an analysis of public good games in which face-to-face communication leads to substantial increases in cooperation). Each player belongs to an organisation, so reputations can be smoothly inferred from one representative of the organisation to the other. In other words, a reputation of trustworthiness does not disappear (completely) when individual persons are replaced. Reputations are important, because policy-making is a dynamic process. Organisations meet each other over and over again, and know that this will not change in the coming years. Along with the fact of the small group, this leads to the fact that the possibilities for learning and control are substantial. It also has implications for the way unanimity is reached in the

recommendations. Occasionally when opinions of the social partners are too far apart, trying to reach unanimity is not desirable as it may prevent them from coming to an unanimous agreement in a repeated round of the discussions in the SER at a time when such unanimity may be even more urgent.

All in all trust formation and the use of trust between the leaders of the various groups of stakeholders is one of the major mechanisms in the Netherlands for the quality control of scientific policy advice. In a broad respect Hoppe and Halffman (2004) distinguish three patters of institutionalisation of scientific advising in policy preparation in the Netherlands. The first is the corporatist approach of organising scientific input in the policy debate and negotiations between the social partners. Advantages of this way of institutionalising have been discussed above: stable platforms of negotiation, consistent use of scientific knowledge and trust formation between various stakeholders. A disadvantage can be that outsiders and outsiders' knowledge are excluded from the discussions and that the discussion is locked within the dominant discourse coalition (see Van den Boogaart 2002).

According to Hoppe and Halffman, the second pattern is the neoliberal, decisionistic way of obtaining scientific advice for the design of policy measures. Here policy makers *buy* advice from independent and often commercial centres of expertise.

This pattern is linked to the increased focus on efficiency through the working of markets in economic policy. A third pattern is a tendency towards a more interactive and deliberative way of organising the debate between stakeholders (see, e.g., Van de Kerkhof 2004). From the (Tinbergen) viewpoint of economic policy, such stakeholder participation can be useful in order to obtain

more information on, and/or to shape and sharpen the preferences and interests of stakeholders, so that they become more explicit. More generally, it is important to be clear about the aim of stakeholder participation when it is to be organised and eventually institutionalised. The aim can be (i) obtain insight in stakeholder preferences; (ii)articulate stakeholder preferences; (iii) strive at convergence of preferences; (iv) obtain information on negotiating power of stakeholders. Each case requires a specific setup for stakeholders' participation.

Debate and Controversy

The separation in the polder model between data collection, the working of the economy and policy goals derived from political preferences, should also apply to the public debate and controversy about policy plans. Data collection should be indisputable so that here the debate should be confined to internal discussions between the experts. CBS has been quite successful in this respect. The most disputed part of the institutional setup of the polder model is the separation of the debate and the controversy on scientific knowledge on the working of the economy and on policy preferences. Of course, in practice such clear separation of responsibilities is impossible so that often the public debate is obscured by mixing opinions on the working of the economy with opinions on policy goals and their contribution to welfare. In particular, this problem arises when expert economists become opinion leaders and disguise their political preferences in debates on economic effectiveness of policy measures. Indeed, the discussions in the SER will not always reflect the ideal setup of Tinbergens' polder model either and arguments on the working of the economy will be mixed with political preferences (see Woldendorp 2005).

The most relevant arena of debate from the perspective of this chapter is the scientific debate on the working of the economy and consequently the appropriateness of measures of economic policy. Here the institutional setup of the polder model makes it possible to find a subtle balance between reaching agreement amongst experts and widening the scientific debate. Much and long lasting disagreement between experts would weaken the position of scientific knowledge and would make policy preparation less efficient.

On the other hand, early exclusion of outsider opinions would lead to deadlocks and to dominant discourse coalitions. In illustration of this aspect of the polder model, some examples of debate and controversy on the role and work of the CPB are given below.

Monopoly versus Competition

The CPB's reputation of conducting independent analyses has been challenged from time to time both in academia and by the press, especially with respect to its task as formal auditor for the government. Here the position of the CPB is in fact that of a monopoly and it is true that the CPB has a special situation as it has access to confidential information on government policy. This position is needed in order for the CPB to be able to react promptly on policy makers' questions pertaining to technical and accounting aspects in policy discussions. Yet, in the institutional framework for policy making in the Netherlands, a number of checks and balances have been installed in order to prevent the CPB from misusing its monopolistic position. For one, there is a regular evaluation of the work of the CPB by external expert commissions. Moreover, misuse of its monopolistic position would also immediately destroy much of the good reputation that the

bureau has built up so carefully. Besides, as already mentioned, it is a question of efficiency to have, in a relatively small country like the Netherlands, only one institute which is responsible for this kind of macroeconomic forecasting and policy evaluations. This task requires a lot of specific investments and hence the institute has to be quite sizeable. It is typical for the institutional setup of Dutch policy making that there are numerous formal and informal contacts between the staff of the CPB and the economists at ministries, researchers in academia and the staff of the social partners. On the one hand, they provide relevant information to the CPB, but, on the other hand, they will, if needed, be critical of the work of the CPB.

The CPB does not hold a monopolistic position for its second task, namely that as an institute of applied economic research. Here, it competes both with other Dutch institutes and with institutes abroad. Nowadays the CPB is asked more frequently than earlier on to give a second opinion on research conducted by other institutes. Similarly, there is, for instance, no objection that political parties ask other researchers, including research institutes at universities for second opinions on the effectiveness of parts of their programmes. Yet, a full economic assessment of the programmes as conducted by the CPB, cannot be done by other institutes because of the costs involved in investments in specific knowledge and building up of reputation in the institutions of policy preparation in the Netherlands. In this respect the situation is different compared to e.g. Germany where six independent research institutes assess economic developments and the policy plans from various economic perspectives. This may result in diverse and sometimes competing views on the adequacy of plans (see Wagner, this volume).

Wage Moderation

The policy of wage moderation, which is, in retrospect generally supposed to be very beneficial to the Netherlands, has been subject to much controversy and debate. In the 1950s and 1960s, years of prosperous economic growth and almost full employment, the Dutch government conducted an active counter-cyclical policy of demand management. This policy was supported by the first generation of models of the CPB, which were short term Keynesian demand models. According to these models, a rise in government spending, but also wage increases, resulted in more demand and higher economic activity. When unemployment and inflation were rising in the 1970s—the phenomenon of stagflation—, a new generation of policy models of the CPB challenged this policy prescription (see Den Butter 1991). The first turning point was around 1975 when the CPB started to use the Vintaf-model. The clay-clay vintage approach by Den Hartog and Tjan (1974, 1976) in this model showed that a rise in real wages exceeding the rate of technical progress caused increased scrapping of capital goods and hence increased unemployment. So, according to this model, the negative neoclassical effect on employment of a wage increase was larger than the positive Keynesian spending effect. In 1977, the Central Economic Commission, one of these important commissions of highly ranked government officers in the polder model, based its projections and policy advice for the medium term on the outcomes of the Vintaf-model. This evoked a vivid and unique debate among academics and government specialists on the merits and shortcomings of the model (see Driehuis and Van der Zwan 1978). Yet, finally some consensus emerged from this discussion that a policy of wage restraint was a suitable medicine against stagflation and would be helpful in enhancing employment. This

consensus resulted in the famous Wassenaar agreement between the social partners in 1982. This agreement, which couples wage restraint with working time reduction, is seen as the starting point of the improvement of the Dutch economy, with increased labour participation and a reduction of unemployment. It has become known as the transition from the *Dutch disease* to the *Dutch miracle*.

Yet, occasionally the policy of wage restraint, and restraint in government spending, is challenged again. This is especially true during periods of cyclical recessions. One of the arguments, most prominently put forward by Kleinknecht (1994, 2003), is that wage restraints lead to fewer investments in labour-saving technical progress so that the growth rate of (labour) productivity decreases. The other side of the coin of this debate is that empirical evidence does not reveal a negative relationship between wage restraint and labour productivity growth, and that wage restraints lead to a higher rate of return on capital. These profits are partly used for investments in R&D which enhance total factor productivity and therefore (more than) compensate the adverse effect of wage restraints on labour productivity.

Equilibrium Modelling

Another debate on modelling and the working of the economy was held around 1990. This time the debate was initiated outside the CPB, amongst other by experts at the Ministry of Economic Affairs (see Van Bergeijk and Van Sinderen 2000). Model outcomes of the CPB were becoming more and more *policy resistent*, i.e., the calculated effects of policy measures were small as compared to the large effects needed for restructuring the economy. The plea was to put more emphasis on the supply side of the economy, such as competition policy and

deregulation, and use applied general equilibrium models for long term analysis of structural policy measures (see Don et al. 1991). This debate urged the CPB to construct a new model, the MIMIC-model, which has since then been used intensively to calculate the general equilibrium effects of policy measures with respect to taxation and social security reform. Moreover, it initiated a shift in the research of the CPB toward cost benefit analysis and studies of the effects of institutional change.

All in all, these examples show that scientific debate has indeed influenced the ideas and more or less the consensus about the working of the economy in the institutional setup of policy preparation in the Netherlands. However, there is always the danger of, on the one hand, too much debate so that policy makers and politicians are tempted to cherry picking – i.e. selecting those opinions which are in conformity with their a priori's - , and, on the other hand, too much path dependence in the scientific research programmes, with the result that paradigm changes are hindered.

6 A Comparison with France

In order to illustrate that there are large differences between countries in the industrial organisation of economic policy preparation, this section compares labour market institutions and the organisation of policy preparation in France and the Netherlands.

The Dutch polder model can be classified—if any classification is possible: see Esping-Andersen (1990) and the critics of this classification—as a mixture between the liberal Anglo-Saxon model and the Social-Christian Rhineland model. The French model can be regarded as an example of the *latin rim* or

Mediterranean model, although a large number of the actual social security regulations in France mimic the Rhineland model. The reason for this focus on the differences between France and the Netherlands is that, as far as we know, not much literature on comparing these two countries exists. Blanchard and Tirole (2004) discuss some institutional differences between these two countries with respect to employment protection. However, much more economic literature is available on the institutional differences between Germany and the Netherlands (see, e.g., CPB Netherlands Bureau for Economic Policy Analysis 1997; Blien and Den Butter 2003, Eichhorst and Wintermann, 2005). With respect to institutional differences (and similarities) between the UK and the Netherlands, Nickell and Van Ours (2000) show how partly overlapping and partly different supply-oriented policies resulted in a substantial reduction of unemployment rates in both of these countries.

Policy Institutions in France

In order to compare with the Netherlands, we must first have a closer look at institutions which play a role in the social dialogue and policy preparation in France. The French institutional organisations, which are regarded as the most influential on policy preparation, are the Institut National de la Statistique et des Etudes Economiques (INSEE), the Direction de Prévision (DP), the Commisariat Général du Plan and the Conseil Economique et Social (CES).

INSEE, DP and CGP

The Institut National de la Statistique et des Etudes Economiques (INSEE) and the Direction de Prévision (DP) conduct quantitative analyses of economic

developments in France, which are used in the CES recommendations. Both institutes are closely related and in a department of the Ministry of Finance. The INSEE has the combined role of a bureau of statistics and of an institute of applied economic research. Besides data collection and analysis, the INSEE is actively involved in economic research and education. In addition to applied research focused on policy making, the INSEE also conducts high quality fundamental research.

Although both institutes are involved in economic forecasting, each institute has its own specific responsibilities. The DP focuses primarily on short-term forecasting for economic policy making concerning public finance, foreign relations and the financial sector. The INSEE specialises in extremely short-term forecasting and also on long-term forecasting. In order to secure data collection independent of policy analysis, forecasting and analysis of policy proposals which are relevant for actual policy making are prepared by the DP, and not by the INSEE. A second institution which separated data collection and its analysis from policy preparation was the Commissariat Général du Plan (CGP). The CGP was a platform where current policy problems were discussed. The predictions and policy analyses of the DP and the INSEE served as input for these discussions. During its existence the CGP status was subordinate to that of the Ministry of Finance and depended heavily on the prestige of its members. Today the CGP no longer exists. An important feature of the French system are the close interrelations between the Ministry of Finance, the country's most powerful economic body, and the INSEE, the DP and the CGP. Staff members are often employed by one of these institutions using short-term contracts, which results in frequent mutual rotations and increased interaction possibilities. In his study on

the French financial elite, Kadushin (1995) demonstrates that board membership is heavily determined by social circle membership. Concentration of social economic power in France resides largely with the elite.

Conseil Economique et Social

In France the Conseil Economique et Social (CES) advises the Parliament or the government on legislation with a social and economic character. In the CES a great variety of social organisations are represented, with the restriction that only organisations seen as the most representative are eligible to be members in the CES. CES members include delegates from employee organisations, employer organisations, free professions, French citizens who live abroad and agricultural organisations. The CES functions as a discussion forum for the various organisations represented in it. In the CES information exchange takes place and assessments are made with respect to future policy. Every policy plan or project concerning social-economic legislation is liable to compulsory assessment by the CES. The French government may consult the CES on other policy matters as well if such advice seems appropriate. However, the government is not compelled to comply with CES advices and the influence of these recommendations seems to be rather limited. 163 of the 231 CES members are appointed directly by the social member organisations, the government selects the remaining 68 members. Initially the purpose of this appointment procedure was to combine independence and representation with a converging force to serve the national interest (Frayssinet 1986). Furthermore, the government adds 72 specialised section members to the 231 CES members. Although section members do not enjoy the full CES membership, they contribute to discussions in their discipline.

Comparison of Institutions in France and the Netherlands

One of the most striking differences between the two countries is that France lacks an equivalent organisation for the Dutch Foundation of Labour (STAR). Unlike the Netherlands, the French employers' organisations and trade unions are not involved in negotiating collective labour agreements at a central level. This implies that in France no national coordination of wage bargaining exists. Central coordination in the Netherlands provoked effective cooperation and prevented important rivalry between the various unions, although they might have been founded around different ideological principles. The French situation without central coordination and the competitive system of CES representation encourages competition between the various union organisations.

Although the Dutch SER and the French CES appear to have about the same role in the social dialogue in both countries, considerable differences surface. Within the CES many more stakeholder organisations and lobby groups have claimed representation than in the SER, where the social partners play a major role. Implicitly this results in a weaker voice for the French social partners in the CES and therefore less influence on government policy. The second related dissimilarity is that in the Netherlands, the SER is institutionalised to be much more independent of government intervention than the CES in France. The Dutch government has no say in the appointment of SER members, whereas in France about one-third of the CES members and all of the section members are appointed by the government. The Dutch SER and the French CES differ also in the way they draft their policy recommendations. Whereas CES recommendations usually comprise a number of different views on policy issues and a count of the number of votes showing how many members share each of these views, the SER tries

hard to reach agreement on policy issues and come to unanimous recommendations. When unanimous agreement is not reached, disagreement is minimised and the text of the recommendations indicates by name which members have different opinions about specific aspects of the policy proposals.

In principle the CPB in the Netherlands, and the INSEE, the DP and the CGP in France have about the same role in policy preparation. Within the INSEE data collection is carried out independent from the data analysis, whereas in the Netherlands the Central Bureau of Statistics (CBS), which is nowadays placed at a distance from government control, conducts independent data collection. Yet it seems that INSEE and DP analyses have far less influence on the French policy discussions than CPB analyses have on policy discussions in the Netherlands. A similarity in the institutional setup of labour relations in both countries is that most collective labour agreements between the social partners are made binding by the government for all workers—union members and non-union members—in the sector to which the agreement applies. This is remarkable as in both countries the rate of union membership has fallen and is nowadays rather low. France even has the lowest membership rate of the European Union (Besancenot and Vranceanu 1998).

Furthermore, the number of workers that is bound by collective agreements is very high in France, with coverage of about 90 per cent. In the Netherlands 70 to 75 per cent of the workers is covered by collective agreements.

All in all, it can be concluded that the major differences between France and the Netherlands arise from the extent of governmental interference in labour relations. In the Netherlands, the government has refrained more and more from interfering in the social partners' negotiations on labour relations. Yet, the threat

of possible interference has motivated the social partners to be cooperative and to avoid such interference. The need to cooperate enhances trust in the negotiation process (see the previous section).

In France much direct government intervention in the negotiations between the social partners can traditionally be found. This large governmental influence on the outcome of the negotiations causes distrust and enhanced feelings of powerlessness between the social partners. Whereas in the Netherlands social partners try hard to each a compromise agreement within the setup of the polder model, in France we see what we may call ›the productive conflict model‹ at work. In this model social partners try to resolve disputes by confrontation. This has also to do with the republican tradition in France and the social-Colbertism with a dominant role for the centralised state, which tries to monopolise power to make decisions in order to reach certain political and social goals. In France it is the political elite that decides about policy matters without much consultation. It will withdraw or adapt the policy measures when they evoke too much protest and lead to conflict. In the Netherlands, however, the institutional setup is much more directed to consultation. The advantage of the Dutch model is that less conflicts arise, so that the final implementation of policy measures is less costly. However, the disadvantage as compared to the French conflict model is that coming to an agreement may be very time-consuming and that compromise policy measures may be inefficient (see, e.g., the failing efforts in the Netherlands to come to a reform of the costly disability provisions). Subsequently, in France obstacles lie with the implementation of policy while in the Netherlands policy preparation is most time consuming.

7 Conclusion

The process of policy preparation is organised in the Netherlands in such a way that scientific knowledge plays an important role in the shaping of (economic) policy. Moreover, the formal and informal procedures of the institutional setup guarantee that there is ample interaction and quality control in the use of scientific knowledge in the policy proposals. This interaction is favoured by the fact that there is a relative small number of key actors in the process of policy preparation and that they meet each other frequently in various committees, commissions and councils. It happens quite often, and probably more frequently than in other countries, that academic experts become high ranking government officers and even Ministers. There is also much mobility of experts etween academia, planning bureaus, advisory councils and think tanks at ministries.

The consultation structure of the Dutch polder model puts much emphasis on ompromise in the social dialogue and on obtaining public support for policy measures. The advantage is that much social unrest is avoided and implementation costs of policy measures are relatively low. The disadvantage is that it may take a long time before agreement is reached on urgent policy measures and that policy arrangements, for instance the system of social security, become very complicated and inefficient as they are the result of extensively debated and amended compromise agreements.

The separation between undisputed data collection, consensus on the working of the economy and compromise about policy goals, as inspired by Tinbergen, still seems to be a workable institutional setup. A problem which becomes increasingly evident is that policy recommendtions and the resulting

policy debate increasingly have a very technocratic character so that they are difficult for the layman to understand. More in general, this is an important information problem in highly developed societies.

Apparently the trade-offs between risk insurance by the government and individual responsibilities of citizens, and between moral hazard and solidarity, are difficult to understand and communicate. It urges a rethinking of how more attention to communication on the dilemmas in policy making because of these trade-offs can be included in the institutional setup of the polder model.

In the industrial organisation of economic policy preparation there is no one model to be preferred. Different countries have different models which can partly be attributed to cultural differences. In the institutional setup of policy preparation after World War II the concept of *planning* played a major role in most continental European countries. Yet, the decentralised discussion-based culture in the Netherlands and the centralized, power-based culture in France have given rise to a much different interpretation of *planning*, and of the way the policy preparation has been institutionalised. However, part of the differences can also be attributed to the way the protagonists and opinion leaders in economic policy have been involved in the institutional setup of policy preparation. The obvious examples are here are Norway (see Bjerkholt, 1998) and the Netherlands, where both Nobel prize winners in economics, Frisch and Tinbergen, were the forerunners in making economic policy preparation empirical. In Norway, policy plans were set up like production plans in industry, with much detail, whereas in the Netherlands policy analysis was much more macro-oriented, with the separation of responsibilities between data collection, knowledge on the working of the economy and political preferences described extensively in this chapter.

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